September 15, 2004

**Report on Department of State Implementation of the
Federal Financial Assistance Management Improvement Act of 1999**

The Federal Financial Assistance Management Improvement Act of 1999 (Public Law 106-107) was enacted to improve the effectiveness and efficiency of Federal financial assistance programs. Under Public Law (P.L.) 106-107, each agency is required to develop an implementation plan. In May 2001, with guidance from the Office of Management and Budget (OMB), the Interagency Initial Plan for Implementation of P.L. 106-107 (Plan) was prepared jointly by the 26 major grant-making agencies and submitted to Congress. The Department of State was a signatory to the Plan.

Section 5(d) of P.L. 106-107 requires each agency to submit an annual report on implementation of the Plan. This is the third annual report on Implementation of P.L. 106-107 for the Department of State. The report is composed of two parts. Part I is the Interagency Report on P.L. 106-107 Implementation Efforts, developed by the P.L. 106-107 Project Management Office (PMO) and approved by OMB. Part II provides the specific efforts that the Department of State is taking to implement P.L. 106-107.

Christopher B. Burnham

**Part I**

**Interagency Report on P.L. 106-107 Implementation Efforts**

# ANNUAL PROGRESS REPORT ON IMPLEMENTATION OF PUBLIC LAW 106-107

## I.    PURPOSE

This is the third annual progress report, based on the initial plan submitted to the Congress and the Office of Management and Budget (OMB) in May 2001, describing the collaborative efforts of 26 Federal agencies to streamline and simplify the award and administration of Federal grants.[1]  This report covers interagency activities between May 2003 and May 2004.  The submission of this annual progress report to the Congress and OMB is required by Section 5 of the Federal Financial Assistance Management Improvement Act of 1999 (Public Law [P.L.] 106-107, "the Act").

## II.    THE YEAR IN REVIEW

This year was the most productive year since the enactment of P.L. 106-107 in the effort to streamline and simplify the grants process.  With the continued commitment of the Federal agencies, government-wide grants streamlining and simplification is progressing and has begun to produce results for grant applicants and recipients.  Several important activities related to identifying grant funding opportunities and applying for them reached the point of implementation.  We put in place the foundation for a simplified grants policy framework.  We also continued to pursue other longer-term efforts to streamline and simplify the grants process, which will be completed in the future.  The Federal grant-making agencies continue their commitment to grants streamlining and simplification through their government-wide and agency-specific efforts.

Oversight of P.L. 106-107 has been strengthened with the re-chartering of the Grants Executive Board in May 2004.  The Grants Executive Board, which has been providing oversight to the Grants.gov initiative, has expanded its role to include oversight of the grants streamlining and simplification activities under P. L. 106-107.  One of the Board's key responsibilities is to review recommendations of the P.L. 106-107 work groups to determine if they should be referred to OMB for government-wide implementation.  The Board replaces the Grants Management Committee of the Chief Financial Officers' Council, which previously provided P. L. 106-107 oversight.  The Board's membership includes senior officials from 11 of the Federal grant-making agencies supplemented by two positions that will be rotated among the other 15 grant-making agencies.  The rotating members will have 6-month appointments.

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[1] The term "grant" as used in this report includes cooperative agreements.

We are pleased to report progress in all phases of the grants life cycle; however our most significant achievements this past year have been in the pre-award phase. As described in sections III. A and B of this report, we have realized our objectives to:

♦ Establish a new title in the Code of Federal Regulations (CFR) as the first step toward a simplified and unified framework for issuing OMB guidance and agency implementing regulations (section III.A),

♦ Deploy the portion of Grants.gov that provides a single website to post synopses of Federal grant funding opportunities (section III.B.1),

♦ Deploy the mechanism of Grants.gov that allows electronic receipt of grants applications through a single portal (section III.B.2).

Last year we reported on these latter two objectives and their anticipated benefits based on proposals, pilot activities, and limited use. Grants.gov FIND and APPLY are now available for general use. Since deployment of the Grants.gov FIND and APPLY mechanisms, Grants.gov has received affirmative feedback from the grants community as an effective tool for reducing their administrative burden. For example, Larry Naake, Executive Director of the National Association of Counties stated at the December 2003 Grants.gov launch event that, "the greatest obstacles for county officials searching for federal grant opportunities is a lack of awareness of opportunities…. The need is obvious. The [Grants.gov] solution fits the need." At a recent conference, Mary Louise Resch, Grants Administrator for the city of Lexington, S.C. said that, "for a small municipality such as ours with limited grants staffing, Grants.gov has been a wonderful time saving tool. The ability to review, on a daily basis, postings from a variety of Federal agencies is efficient and effective."

The Grants.gov portal was also recently recognized by two key industry organizations. The awards received by Grants.gov reflect excellence in delivery of a needed solution to meet streamlined grants practices. The National Grants Management Association, a national organization comprised of grantees and professionals from grant-making agencies, presented Grants.gov with its Electronic Solutions Award for "developing a simple, unified electronic Storefront for interactions between grants applicants and Federal agencies that manage grants." Grants.gov also received the FOSE Showcase of Excellence presented by the Chief Information Officer Council for government programs and projects that are success stories and use best practices related to the Citizen-Centered Strategy.

The overwhelming success of the Grants.gov portal resulted from the initiative's proactive approach to working with its stakeholders to obtain input into the portal's design and deployment plans. Representatives from the grants community and Federal grants staff participated in the establishment of the Grants.gov vision and goals, proof-of-concept and pilot tests, training workshops, and post-deployment evaluations. Grants.gov also established a premier helpdesk capability to support users.

Another key accomplishment was completion of the effort described in section III.C. to

standardize language in the OMB cost principles circulars. These changes should minimize the varying interpretations of the cost principles and reduce administrative burden on recipients of Federal grants.  As described in section III.C.2, we are continuing our work on changing reporting requirements to reduce redundancy and standardize the information provided.

In addition, in early 2004, OMB launched the Grants Management Line of Business (GM LOB) initiative.  The goal of this interagency initiative, under the leadership of the National Science Foundation and the Department of Education, is to identify and recommend to OMB a common government-wide solution or solutions to achieve end-to-end integrated grants management – from initial find and apply (provided through Grants.gov) through award and closeout actions.  The GM LOB will define the framework for grants management back-office systems, to include architecture and defining integration with agency management systems, e.g., financial systems, budget systems, property systems and performance management systems.  Additionally, the solution proposed by the GM LOB shall promote citizen access, customer service, and financial and technical stewardship, as well as:

- Improve customer access and efficiency of submission process;

- Improve decision making;

- Integrate with Financial Management processes;

- Improve efficiency of reporting procedures in order to increase usable information content; and

- Optimize post-award and closeout actions.

As we will reach the midpoint in the life of P.L. 106-107 during the next year, we expect to see further accomplishments.  We will expand and improve what we have already accomplished—by involving more programs and applicants and recipients and making changes based on feedback—and we will work toward fulfilling our remaining objectives. The following sections of this report outline our accomplishments and plans for the future.

## III.   PROGRESS REPORTS BY AREA

### A.  Improving the Government-wide Policy Framework

OMB has begun a major simplification of the policy framework for grants and agreements by establishing a new Title 2 in the CFR as the central location for both OMB guidance to Federal agencies and agency regulations implementing that guidance.  When the simplification is complete, the guidance and regulations will be easier to find and use, a benefit not only to applicants and recipients, but also to Federal officials who make and administer assistance awards.

The simplification has multiple objectives. One objective is to make OMB guidance for grants and agreements easier to find by locating it in the new Title 2. As the first step toward that objective, OMB this year relocated Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations." In addition to Circular A-110, OMB will relocate six other OMB circulars that are accessible currently at OMB's Internet site and two separate policy documents.[2] Although located in the CFR, the OMB circulars and policy documents still will be guidance to Federal agencies, rather than regulations.

A second objective is to co-locate the OMB guidance with Federal agencies' regulations implementing it (the agency regulations will appear in a second subtitle of Title 2, following the subtitle with the OMB guidance). Most Federal agencies that award grants and agreements issue regulations related to some or all of the nine OMB guidance documents. Since each agency currently publishes its rules in its own title in the CFR, the rules implementing the OMB guidance on grants and agreements are dispersed in about two dozen CFR titles. A recipient of awards from more than one Federal agency therefore must go to multiple CFR locations to find the regulatory sources of requirements with which it must comply. Co-locating agency implementing rules with the OMB guidance in the newly established Title 2 of the CFR will reduce this burden.

A third objective of the simplification is to make the agency implementing regulations easier to use by issuing some of the OMB guidance in a form suitable for agency adoption. Policies and procedures for nonprocurement suspension and debarment, for example, are contained in OMB guidance that 33 Federal agencies (this number includes agencies that do not award grants but have responsibility for other non-procurement transactions) currently implement through a common rule. Each agency publishes in its own title of the CFR the full text of the common rule (see section III.B.4 of this report) and embedded within that text are any agency-specific variations the agency may have from the government-wide regulatory language.

OMB is working with the Interagency Suspension and Debarment Committee to replace each agency's separate publication of the full text of the guidance with a brief regulation that adopts the OMB guidance and clearly states any additions, clarifications, or exceptions in the agency's implementation of the guidance. This will reduce the volume of the nonprocurement suspension and debarment regulations in the CFR by approximately 750 pages. It also will make it much easier for a person who participates in nonprocurement transactions of multiple agencies to identify any variations that may exist in those agencies' policies and procedures for debarment and suspension. Similar opportunities exist for adoptable OMB guidance to replace current common rules on

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[2] The six other OMB Circulars are the administrative requirements in the common rule implementing Circular A-102; the cost principles in Circulars A-21, A-87, and A-122; the audit requirements in Circular A-133; and the implementation of the Federal Program Information Act, in OMB Circular A-89. The two separate policy documents are the (1) combined OMB guidance on nonprocurement debarment and suspension, issued under Section 6 of Executive Order 12549 and last amended on June 26, 1995 (60 FR 33036) and on drug-free workplace, issued under the Drug-Free Workplace Act of 1988 (41 U.S.C. 701 *et seq*.), and (2) OMB guidance to Federal agencies on lobbying restrictions, to implement the requirements of 31 U.S.C. 1352, that was last amended on January 19, 1996 (61 FR 1412).

drug-free workplace and lobbying requirements.

Summary of This Year's Progress

♦ The Pre-Award Work Group made recommendations to OMB for resolving public comments on the proposal to establish Title 2 of the CFR and prepared a draft *Federal Register* notice. OMB established Title 2 on May 11, 2004 [69 FR 26276], with one subtitle for OMB guidance to Federal agencies and a second subtitle for agencies' regulations implementing the guidance.

♦ OMB relocated OMB Circular A-110 in its subtitle of the new Title 2 of the CFR May 11, 2004 [69 FR 26281] as part 215.

Future Plans

♦ OMB will relocate its other circulars in the new Title 2 of the CFR. The circulars initially will be relocated in Title 2 in their current form, pending recommendations from the P.L. 106-107 work groups that may streamline and simplify the guidance.

♦ OMB will work with appropriate interagency committees to issue in Title 2 its other guidance documents—on debarment and suspension, drug-free workplace, and lobbying requirements—in a form that is suitable for agency adoption.

♦ Each Federal agency with regulations implementing OMB guidance will establish a chapter in the second subtitle in the new Title 2 of the CFR. Agencies may re-issue their current regulations in that chapter once established and will be required to do so when OMB issues final changes to its guidance resulting from P.L. 106-107 initiatives.

## B. Streamlining Pre-Award Actions

This year we completed several policy and operational initiatives that agencies have already begun to implement. Collectively, these initiatives offer potential applicants broader access to more complete and useful information about funding opportunities and reduce the administrative burden associated with application submission. Through the deployment of the Grants.gov storefront in October 2003, we accomplished one of the key pre-award streamlining objectives and implemented an important component of the Grants.gov E-Gov initiative in direct support of the President's Management Agenda. We wanted to make it easier for potential applicants to learn about funding opportunities for discretionary grant awards, locate the information they needed to decide whether to apply, and to determine the details of application, evaluation, and award.

Realization of this objective reduces disparate electronic systems and electronic and paper-based data collection requirements and implements standard processes and data definitions for Federal applicant/recipient interactions. This is an area of particular interest to applicants, who made known through their pre-award interactions with us,

particularly the proliferation of electronic systems, were costly in terms of their staff resources and systems, and were generally inefficient.

## 1. Enhancing Information About Funding Opportunities

*Grants.gov FIND*

Consistent with the objective of making information about funding opportunities easier to find and use, the Grants.gov Program Management Office (PMO) deployed Grants.gov FIND (http://www.grants.gov/Find). Grants.gov FIND allows potential applicants to conduct a search of posted grant opportunities, through full text searches or through searches by funding opportunity, agency, funding instrument, funding activity category, or *Catalog of Federal Domestic Assistance* number. A user is able not only to view grant opportunity summaries (synopses) but also to access the full announcement (solicitation), which now must follow a standard government-wide format (as discussed in the following section of this report). Interested individuals or entities can also register to receive e-mail notices of posted funding opportunities using one or more established parameters, e.g., funding opportunity number, agency category, funding activity, interest and eligibility groups, or all funding opportunities. If they decide to apply, they also may do that through the storefront (see section III.B.2 of this report).

Since November 2003 when the requirement became effective, all of the 26 grant-making agencies have been posting their discretionary funding opportunities on Grants.gov FIND. Through May 2004 more than 3,000 discretionary grant opportunities have been posted. Grants.gov FIND also receives over 1 million "hits" and sends over 300,000 e-mail notifications per week at the request of potential applicants.

Summary of This Year's Progress

♦ After resolution by OMB of public comments received on OMB's June 23, 2003 [68 FR 37385] *Federal Register* notice and conclusion of a successful pilot program by the Grants.gov PMO, OMB issued the final policy directive for Grants.gov FIND on October 8, 2003 [68 FR 58147] (http://a257.g.akamaitech.net/7/257/2422/14mar20010800/edocket.access.gpo.gov/2003/pdf/03-25488.pdf). The policy, which became effective on November 7, 2003, requires Federal agencies to use Grants.gov FIND to post synopses of competing discretionary grant opportunities. The October 8 notice also incorporates the final Grants.gov FIND data elements and definitions, which OMB published in final form on June 23, 2003 [68 FR 37379] (http://www.whitehouse.gov/omb/fedreg/062303standard_data_elements.pdf).

♦ The Grants.gov PMO worked with each of the 26 grant-making agencies to post synopses of their discretionary funding opportunities on Grants.gov FIND. Based on a phased deployment schedule, the agencies began posting synopses in February 2003, with all agencies being required to post their synopses by November 2003.

◆     The Grants.gov PMO conducted outreach to the various applicant constituencies and to agency staff to increase awareness of the Grants.gov initiative and train them on how to use Grants.gov FIND. Outreach efforts included monthly stakeholder meetings, train-the-trainer workshops, and grantor workshops. A Contact Center was established to address Federal staff and applicants' questions and provide assistance.

<u>Future Plans</u>

◆     The Grants.gov PMO will continue its outreach efforts to increase awareness of Grants.gov FIND as well as its operation of the Contact Center to address Federal staff and applicants' questions and provide assistance.

◆     The Grants.gov PMO will continue to solicit input regarding the design and functionality of Grants.gov FIND to ensure that users' needs are met. Additionally, the Grants.gov PMO will enhance and integrate Grants.gov's FIND and APPLY mechanisms.

◆     The Mandatory Grants Work Group, following a review of the potential use of Grants.gov FIND, will make recommendations on the appropriate use of Grants.gov FIND for mandatory grants (such as block and formula grants to States). These grants generally do not use a funding opportunity announcement.

*Full Announcements of Funding Opportunities*

An announcement gives potential applicants the information they need, such as the types of activity the agency will support, who is eligible to apply, and when and how to apply. The purpose of this objective is to help potential applicants for discretionary grant awards by making Federal agencies' announcements of funding opportunities more uniform in format and reduce, where possible, differences in related business practices. Public commenters noted that Federal agencies organize the information in their announcements in many different ways, making it hard for potential applicants to quickly find specific information. They also raised issues about business practices related to the application process, such as the amount of time that applicants are given to prepare applications and varying criteria that different Federal agencies use in determining that an application is late.

This year we completed the first of the two planned phases of this objective by issuing a standard format for organizing information in agencies' announcements. Agencies began to use the format in October 2003. The second phase is to develop guidance on business practices related to the application process—such as Federal agencies' criteria for determining that applications are late—that could be added into subsequent revisions of the standard announcement format.

<u>Summary of This Year's Progress</u>

◆     OMB published the final announcement format for announcements of

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discretionary grant funding opportunities on June 23, 2003 [68 FR 37370] and issued the associated policy directive.

♦ Federal agencies completed their implementing actions and began to use the standard announcement format.

Future Plans

♦ The Pre-Award Work Group will recommend guidance on business practices related to the application process for inclusion in subsequent OMB updates of the announcement format.

## 2. Applications--Making the Process Easier

Two major initiatives intended to streamline the application process were completed this year─establishing government-wide data standards for certain information (known as "core data") in electronic applications for discretionary grants, and creating an electronic portal—Grants.gov APPLY ([www.grants.gov/Apply](www.grants.gov/Apply))—to let applicants submit applications by the same means to any Federal agency.

Grants.gov APPLY allows an applicant to download an application package from Grants.gov and complete the application offline based on agency instructions. The application form includes a standard set of core data elements based on the updated version of the SF-424. After an applicant completes the required forms, they can be submitted electronically to Grants.gov, which transmits the application to the funding agency, thus reducing the administrative burden of using multiple systems with differing requirements to submit applications.

Grants.gov APPLY was launched on October 31, 2003. Through July 2004, more than 165 programs have been made available for electronic application through Grants.gov APPLY and nearly 1,000 applications have been submitted through the portal. Efforts continue to increase the number of programs in Grants.gov APPLY and the number of applications submitted through the portal. This includes deployment of cross-agency data sets for grant types and Federal market segments (e.g., mandatory grants, grants to individuals, research and related grants, and arts and humanities grants).

The FIND mechanism has been widely adopted by the grants community and become a primary tool in their daily work activities. Jerry Stuck, Executive Director of the Federal Demonstration Partnership, in public comments pointed to its usefulness in the research environment, "university researchers would rather spend more time conducting their research and less time pushing grant paperwork around or searching for the next funding opportunity." Building on that point, Ron Di Melfi, Ph.D., Director, Office of Sponsored Programs, National University states, "I was amazed and pleased at how helpful, accessible and useful [Grants.gov] is. The search capability is comprehensive, fast, connects to the full announcement and leads one seamlessly to all of the guidelines and forms needed to proceed with an application.

<u>Summary of This Year's Progress</u>

♦ On April 8, 2003, OMB published in the *Federal Register* [68 FR 17090] (http://www.whitehouse.gov/omb/fedreg/040803_standard_fed_grant_app.pdf) a notice proposing to update the SF-424 and establish a standard set of data elements and definitions for both electronic and paper applications for discretionary grants. Based on that proposal, the Grants.gov PMO, with the assistance of the Interagency Electronic Grants Committee and the Electronic Standards Work Group operating under its auspices, adopted a standard core set of data elements for cover, budgetary, and project information based on the SF-424 for use in electronic submission of grant applications through Grants.gov.

♦ The Grants.gov PMO deployed the Grants.gov APPLY on October 31, 2003. The HHS Secretary, Tommy Thompson, held a press conference on December 9, 2003 to announce the launch of Grants.gov APPLY. Additionally, information packets about the initiative were sent to members of Congress, and all grant-making agencies.

♦ Grants.gov received the first electronic application on December 9, 2003. It was received from the Virginia Institute of Marine Science in response to a Department of Commerce solicitation.

♦ In compliance with OMB direction requiring Federal agencies to use Grants.gov APPLY (http://www.whitehouse.gov/omb/memoranda/fy04/m04-05.html), agencies have submitted a preliminary "ramp-up" schedule for including their grant programs in Grants.gov APPLY.

♦ An interagency work group identified a grant application data set and electronic forms for use in Grants.gov by the research grant community. The SF-424(R&R) consolidates application data currently used by Federal grant-making agencies with a research mission for their research and related (e.g., training) programs. Following OMB review, the SF-424(R&R) will become the standard Federal form for research and related grant applications submitted through Grants.gov, replacing numerous agency-specific forms.

♦ The Mandatory Grants Work Group began its review of the government-wide application data elements for discretionary grants to determine what modification may be needed for plans and applications under mandatory grant programs (including block and formula grants).

♦ The Grants.gov PMO conducted outreach efforts to agencies to assist them in publishing application packages in Grants.gov APPLY and to the applicant communities to increase awareness of Grants.gov APPLY. Outreach efforts included monthly stakeholder meetings, train-the-trainer workshops, grantor workshops, applicant "system-to-system" workshops, a data analysis/forms development workshop, and grantor "system-to-system" workshops. A Contact Center was established to address Federal staff and applicants' questions and provide assistance.

♦ The Grants.gov PMO successfully deployed system-to-system interfaces between Grants.gov and agency "back-office" grants management systems (i.e., those internal to the agency).

Future Plans

♦ Agencies will complete their assessments of whether additional information is needed in their application packages to augment the core data set. Upon conclusion of agencies' analyses, they will work with the Grants.gov PMO to identify existing electronic forms that can be re-used by multiple agencies as well as develop necessary agency-specific forms.

♦ Interagency work groups will consider the need and content of grant application data sets and forms for the arts and humanities community and for grants to individuals.

♦ The Grants.gov PMO will continue to work with OMB to monitor government-wide use of the SF-424 (R&R).

♦ The Grants.gov PMO will work with E-Authentication, another of the President's E-Gov initiatives, to conduct a pilot to test new, streamlined functionality for authentication services using web-based technology.

♦ The Grants.gov PMO will continue to work with the Federal agencies to increase adoption and utilization of Grants.gov APPLY.

♦ The Grants.gov PMO will expand Grants.gov APPLY to accept electronic plans and applications for mandatory grants across the Federal government.

♦ In conjunction with the Grants.gov PMO, the Mandatory Grants Work Group will complete its examination of data elements used to apply for mandatory grants.

♦ The agencies will participate in the government-wide Grants Management Line of Business initiative, tasked with recommending a common solution(s) to achieve end-to-end integrated grants management. In addition agencies will take the appropriate steps to align and migrate their grants related investments to the common government-wide solution(s).

## 3. Updating and Improving Nonprocurement Debarment and Suspension Rules

The Interagency Suspension and Debarment Committee (ISDC), which is associated with the Pre-Award Work Group, completed the update of two government-wide rules—the rule on nonprocurement debarment and suspension and the rule on drug-free workplace requirements. This is a major accomplishment, involving 33 agencies. The debarment and suspension rule helps to prevent poor performance, waste, fraud, and abuse in Federal programs by ensuring that federally funded activities are conducted with responsible entities. The drug-free workplace rule implements the Drug-Free Workplace

Act of 1988, as amended, as it applies to grants.  In addition to providing better protection for Federal programs, the updated rules are in plain language and are therefore clearer and easier to use.  These updated rules also streamline procedures by allowing agencies to use methods to provide for recipient compliance that are less burdensome than requiring each applicant to submit a certification with each application.

Summary of This Year's Progress

♦        The ISDC worked with OMB to publish the final version of the updated debarment and suspension and drug-free workplace common rules on November 26, 2003
[68 FR 66534].

Future Plans

♦        After OMB issues its guidance on nonprocurement debarment and suspension in a form suitable for agency adoption (see section A of this report), each agency will replace its publication of the full-text common rule with a brief regulation in Title 2 of the CFR to adopt the guidance and state any agency-specific variations. The ISDC will help coordinate the regulatory changes.

## 4.  Awards—Developing a Unified and Simplified Approach

As described in previous P.L. 106-107 reports, the Pre-Award Work Group is seeking to reduce unnecessary burdens on recipients by making Federal agencies' awards as alike as practicable.  Work this year focused on developing an approach for establishing award terms and conditions to address the administrative requirements that largely derive from OMB Circulars A-102 and A-110.

The work group's goals are to:

— Have award terms and conditions that speak clearly to recipients.

— Eliminate unnecessary differences between administrative requirements in Federal agencies' awards and those in OMB Circulars A-102 and A-110, OMB's government-wide guidance to the agencies.

— Structure awards so that, if an agency does have administrative requirements that vary from the standard requirements in A-102 or A-110, the recipient can easily see which requirements in the award vary from the standard requirements.

— Streamline and simplify award requirements as much as is possible consistent with maintaining responsible stewardship of Federal funds.

Summary of This Year's Progress

♦  The Pre-Award Work Group developed a prototype of a recommended approach that

could be issued as OMB guidance in the newly established Title 2 of the CFR and, when subsequently implemented by agencies, would standardize award format and language for common award terms and conditions.

Future Plans

♦ The Pre-Award Work Group will seek public comment by means of a *Federal Register* notice on proposed guidance establishing a standard format for discretionary awards and, to the extent practicable, standard content and language. The format will include the award notice with cover information; terms and conditions for national policy requirements contained in Federal statutes, Executive orders, and regulations; and terms and conditions for administrative requirements. The proposal for administrative requirements would include any recommended changes to current OMB Circulars A-102 and A-110.

♦ In conjunction with its recommendations on terms and conditions for national policy requirements, the Pre-Award Work Group will recommend a policy on use of certifications and assurances.

♦ The Mandatory Grants Work Group, working with the Pre-Award Work Group, will determine whether the government-wide standard organization and content for discretionary awards needs to be supplemented or modified for awards under mandatory grant programs. They will recommend changes that are needed to establish a government-wide standard for mandatory grants.

## C. Simplifying Post-Award Requirements

## 1. Cost Principles—Eliminating Needless Differences

OMB issues cost principles that define allowable costs under federally supported programs and projects. Different sets of cost principles, developed at different times, apply to different types of grantees. The OMB cost principles are OMB Circular A-21, "Cost Principles for Educational Institutions," A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and A-122, "Cost Principles for Non-Profit Organizations." All three sets of cost principles share the same purpose but, in some cases, used different language to describe similar cost items. This sometimes resulted in different interpretations by Federal staff, recipients, and auditors. Our objective was to ensure that, where appropriate, the sets of OMB cost principles are consistent when describing similar cost items, while maintaining needed differences by type of entity. This objective was echoed in public comments asking that, in any effort to clarify the cost principles or make them more consistent, OMB should not change policy.

Summary of This Year's Progress

♦ The Cost Principles Subgroup of the Post-Award Work Group completed its analysis of the comments received in response to the August 12, 2002 *Federal Register* [67 FR 52558] notice that proposed adopting common language for 46 cost

items, deleting 12 cost items, and leaving 17 cost items unchanged. OMB published a final *Federal Register* notice on May 10, 2004 [69 FR 25970], which made 45 changes to cost items as originally proposed and revised the proposed language on 24, resulting in consistent descriptions and clarifying language for similar cost items across the three OMB cost principles circulars. The final *Federal Register* notice also withdrew proposed language on six cost items because of public concerns about potential changes in policy.

Future Plans

♦       Based on the comments received on the August 12, 2002 *Federal Register* notice and other constituency input, the Cost Principles Subgroup will assess whether there are further opportunities to streamline administration of the cost principles.

♦       The Cost Principles Subgroup will evaluate the feasibility of consolidating Federal guidance for preparing and reviewing indirect cost proposals. Currently, although governed by the applicable OMB cost principle circulars, Federal agencies/offices issue their own guidance addressing the same requirements with differing language, level of detail, and, sometimes, interpretation.

## 2. Post-Award Reporting—Improving the Quality of Information While Reducing Duplication

Post-award reports are a primary tool used by Federal agencies for monitoring recipient progress and activities under grants. At a minimum, agencies require recipients to report on their expenditures and on other financial matters and their progress. There are a variety of reporting forms and formats in use for this reporting. While financial reporting generally is quantitative, performance reports may be in narrative form or may require a variety of data. Agencies increasingly require grantees to report on their progress in achieving agreed-on performance measures (developed before award). Some agencies or programs also require other reports, e.g., invention reports or federally owned property reports, for which they have established their own content and submission requirements in the absence of government-wide standards.

Public comments expressed concerns with the number of different forms and formats required by the agencies for reporting purposes, the level of detail required, and the frequency and means of submission. The Post-Award Work Group's Reporting Subgroup reviewed the existing financial, personal and real property, and invention reporting requirements in order to develop proposals that include standard data elements, where appropriate, and common business processes for use of these types of reports. Each of these proposals, which is at a different state of completion, will streamline and standardize the reporting process, while retaining flexibility for agencies to determine whether to impose a reporting requirement at all or whether they need only a portion of the authorized information, and to specify the frequency of submission. For example, the financial reporting proposal is intended to consolidate the Financial Status Report (SF-269) and the Federal Cash Transactions Report (SF-272) in a single report, the Federal Financial Report (FFR). Most grant recipients currently are required to submit at least

one of these reports under each award, with many recipients required to submit both.  The FFR would accomplish the same purposes with a single form, allowing agencies to require all or only that portion of the information they need for their programs.

Our initial review of performance or progress reporting showed that, due to differences in the types of federally supported activities, performance reporting was not suited to the single-form approach taken for other types of reports.  Currently, we are pursuing two approaches to performance or progress reporting—one for research awards and one for all other types of grant awards.

The proposed Performance/Progress Report (PPR)—developed by the Post-Award Reporting Subgroup for use in non-research awards—would allow agencies to obtain the information they need for their non-research activities from a menu of standard choices. The PPR would allow agencies to

&mdash; Establish similar reporting requirements for similar types of activities,

&mdash; Better fulfill their responsibilities under the Government Performance and Results Act, and

&mdash; Use information from the PPR in completing the Performance Assessment Rating Tool required by OMB.

Given their role in facilitating cross-agency efforts to address issues critical to the support of research, the Research Business Models (RBM) Subcommittee of the National Science and Technology Council's (NSTC's) Committee on Science has assumed responsibility for streamlining and standardizing progress reporting under Federal research awards. The RBM Subcommittee is working closely with OMB and the relevant P.L. 106-107 Work Groups and Subgroups in this effort.

Summary of This Year's Progress

♦ The Post-Award Reporting Subgroup considered the more than 200 public comments on the April 8, 2003 *Federal Register* notice [68 FR 17097] that proposed the FFR, made changes to the form and instructions in response to those comments, and is working with OMB to issue a final *Federal Register* notice.

♦ The Post-Award Reporting Subgroup developed a draft PPR for programs other than research and informally coordinated the draft with the Federal agencies and constituency groups to test its potential use.

♦ The RBM Subcommittee of the NSTC's Committee on Science began work on a standard format and instructions for research progress reporting.

♦ The Post-Award Reporting Subgroup developed a draft personal property report and instructions for government-wide use and sought informal agency comment.

♦ The Post-Award Reporting Subgroup developed a draft real property report for government-wide use. The draft reporting form incorporates and defines data elements commonly used by the Federal agencies.

Future Plans

♦ OMB will propose in the *Federal Register* for public comment revisions to its financial reporting policies in 2 CFR part 215 (Circular A-110) and Circular A-102 to accompany the new FFR.

♦ Following informal review of the PPR, the Post-Award Reporting Subgroup will make needed changes, develop a formal proposal, and draft a *Federal Register* notice.

♦ The RBM Subcommittee will develop its recommended approach to progress reporting and suggest the process for public input and the form of issuance of the resulting format and instructions.

♦ The Post-Award Reporting Subgroup will develop the business rules for use of the government-wide real and personal property reports and prepare the forms, instructions, and business rules for issuance in the *Federal Register* for public comment.

♦ The Post-Award Reporting Subgroup and RBM Subcommittee will develop policies and procedures in their respective areas of responsibility for the revised reporting requirements. The Pre-Award Work Group will include the policies and procedures for performance, financial, real and personal property, and invention reporting in the award terms and conditions and associated OMB guidance described in section B.4 of this report.

♦ OMB will publish in the *Federal Register* a final directive—developed by the Post-Award Reporting Subgroup following public comment—to establish standard data elements for a summary report of inventions.

## 3. Audits—Increasing Accountability While Decreasing Burden

Audits are an important means of providing reasonable assurance that grant recipients are managing Federal awards in compliance with applicable laws and regulations and the terms and conditions of the agreement. OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" establishes the policies for audit of governmental and non-profit entities, including institutions of higher education. The audit process involves both Federal and non-Federal constituencies. They include OMB, the Federal grant-awarding agencies, the Federal Audit Clearinghouse (FAC), non-Federal auditors, and grant recipients.

Our efforts in the audit area, through the Audit Oversight Work Group and its Subgroups, OMB, the Inspector General offices (IGs) and the audit community, are focused on increasing awareness of audit requirements, communicating them in a manner that

everyone involved can understand, and improving the quality of audits and audit services. We want to make audit results a more useful tool for Federal agencies to monitor recipient compliance, for recipients to monitor subrecipient compliance, and for cognizant agencies to negotiate and approve indirect cost rates and cost allocation plans.

To achieve these objectives, we continue to look for opportunities to improve the annual OMB Circular A-133 Compliance Supplement, the quality of audits, the data collection form for reporting on single audits, the FAC website, and other aspects of the FAC's operations. The FAC recently made a new Image Management System (IMS) available for agency use. The IMS—a secure, web-based query system for authorized Federal agency users—allows users to download images of OMB Circular A-133 audit reporting packages submitted by recipients. Reporting packages typically include multiple documents, e.g., Financial Statements, Schedule of Expenditures of Federal Awards, and auditor's reports, which may be up to 500 pages in length. IMS, which has been positively received by users, will help agencies obtain complete information in a usable form and should reduce the number of individual queries to the FAC for this information.

The IG offices, under the leadership of the Department of Education, have undertaken a national single audit-sampling project to review and evaluate the quality of single audits (over 37,000 submitted in 2003). This project will provide a statistically reliable estimate of the extent to which single audits conform to applicable requirements, standards, and procedures. The findings and results of this project will be used as a basis for recommendations to improve the single audit process.

Summary of This Year's Progress

♦ The Single Audit Users Subgroup assisted OMB in revising the Data Collection Form. OMB published the revised form in the *Federal Register* for public comment on August 15, 2003 [68 FR 48960] and released the final form in May 2004.

♦ Following completion of review by the Federal agencies and the audit community, the OMB Circular A-133 Single Audit Compliance Supplement Core Team produced the 2004 version of the *OMB Circular A-133 Compliance Supplement*, an annual publication designed to provide auditors with accurate and up-to-date information for the conduct of single audits. This included training to assist Federal agencies in updating existing program information. OMB published in the *Federal Register* on April 30, 2004 [69 FR 23825] the notice indicating the availability of the 2004 Compliance Supplement. The Compliance Supplement also is posted on OMB's website (http://www.whitehouse.gov/omb/circulars/a133_compliance/04/04toc.html).

♦ The Indirect Cost Rates Subgroup completed changes to improve the *OMB Circular A-133 Compliance Supplement* section addressing allowable costs and cost principles by providing guidance for auditing the different types of indirect cost rates and cost allocation plans. These changes are included in the *2004 Compliance Supplement*.

♦   The FAC made the IMS available for agency use.  To facilitate use of the IMS, the FAC developed user instructions and frequently asked questions.

<u>Future Plans</u>

♦   The OMB Circular A-133 Single Audit Compliance Supplement Core Team will produce the 2005 version of the *OMB Circular A-133 Compliance Supplement*.  The Chief Financial Officers' Council's Improper Payments Committee is considering options for enhancing the single audit process to assist agencies in complying with the reporting requirements of the Improper Payments Information Act of 2002.

♦   The IG offices will continue to conduct the national audit-sampling project to evaluate the quality of single audits and to develop recommendations to improve the process.

♦   The FAC will conduct training on use of the IMS for electronic submission of audit reports to authorized Federal agency users, and to make improvements based on agency input.

## IV. THE ROAD AHEAD

We characterize our efforts to streamline and simplify the award and administration of Federal grants—by making transactions with Federal agencies easier, cheaper, quicker, and more understandable for the many thousands of grant applicants and recipients—as a long journey.  This year we jointly arrived at several of our planned destinations.  We took the first major steps toward establishing the interagency policy and systems framework that will make it easier for the public to find our administrative requirements and to identify funding opportunities and apply for them.  The agencies are now tasked with implementing these changes and keeping apace with the field.  Looking ahead, the agencies plan to continue an open dialog with various constituency groups in an effort to assess the effects of current streamlining projects, implement a new array of streamlined performance reports, and continue to modify the federal assistance policy guidance so as to present the information in a standard government-wide language and format. The challenge will be  to sustain this momentum, complete our remaining initiatives, and evaluate and refine what we already accomplished.  We believe the results thus far are encouraging and will keep us on the course to our ultimate destination.

# Part II

# Department of State Report on P.L. 106-107 Implementation Effort

**Department of State**
**Report to Congress Under P.L. 106-107**

In May 2001, the Department of State (Department) along with 25 other Federal grant-making agencies submitted to the Congress and the Office of Management and Budget (OMB) an initial plan for implementing the Federal Financial Assistance Management Improvement Act of 1999, Public Law 106-107 (P.L. 106-107 or the Act) (http://www.hhs.gov/grantsnet/pl106-107final.pdf).  The Act and initial plan call for each of the 26 Federal grant-making agencies to provide annual reports on its progress in meeting the plan's goals and objectives.  This is the third annual progress report to the Congress and OMB describing the Department's efforts to implement P.L 106-107.

The Department's Federal financial assistance programs subject to P.L. 106-107 requirements amounts to approximately $1.5 billion annually.[3]  Two offices within the Department, the Office of the Procurement Executive (A/OPE) and the Office of Grants Financial Management (OGFM), are responsible for leading and coordinating efforts within the Department to implement P.L. 106-107.

Though much work remains, this was a very productive year towards streamlining and simplifying Federal financial assistance in the Department as envisioned by the Act.  Descriptions of our progress and accomplishments over the past year follow.


**Participation in the Government-wide Streamlining and Grants.gov Efforts**


**Interagency Pre-Award Work Group.**  The Department participates in several government-wide streamlining efforts.  We are active participants in the interagency Pre-Award Work Group.  This group is currently preparing to review the latest version of the prototype of administrative requirements (and related CFR Title 2 language) before forwarding it to OMB for review.

**Grants.gov.**  To remain current on Grants.gov initiatives, Department representatives attend all Grants.gov stakeholder meetings.  These meetings provide an important forum to exchange information between the Grants.gov stakeholders and others involved in implementing P.L. 106-107.  Following Grants.gov closely has allowed us to plan ahead and incorporate Grants.gov considerations into the development of our Joint Acquisition and Assistance Management System (JAAMS) (described at the end of this section) and other grant-related activities.

**GM LOB.**  The Department is an active participant in OMB's Grants Management Line of Business (GM LOB) initiative.  The goal of this initiative is to recommend a common government-wide solution to achieve end-to-end integrated grants management – from

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[3] This amount does not include other assistance instruments such as assessed and voluntary contributions and bilateral agreements between the United States and foreign governments.

initial find and apply (provided through Grants.gov) through award and closeout actions. It will define the framework for grants management back-office systems to include architecture and defining integration with agency management systems such as financial and budget systems. This initiative has particular relevance and importance to the Department as the resulting framework and definitions will drive our development and implementation of JAAMS.

**Internal Efforts to Create an Environment Conducive to Grants Streamlining and Simplification and Assess Impact of Changes**

**Payments to Grantees using PMS.** The Department made significant progress during the year by expanding its use of the Department of Health and Human Services' (HHS) Payment Management System (PMS). Bureaus using PMS find that it is user-friendly, improves accountability, and helps them manage their financial assistance programs better. Some bureaus have taken the initiative to go beyond Department guidance (which requires use of PMS for grantees that are U.S. organizations with domestic bank accounts) by requiring additional grantees to use PMS (e.g., grantees without U.S. bank accounts, international organizations that receive assessed and non-assessed contributions).

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**Department's Expanded Use of PMS**

- The Department began using PMS in 2000 when the Bureau of Education and Cultural Affairs (ECA), one of the Department's largest grant-making bureaus, registered 84 recipients that year.

- Department-wide implementation of PMS began in 2003. Today, ECA's registration of grantees increased to 329. The number of Department bureaus using PMS increased to 15 with 229 recipients registered for a Department total of 558.

- In 2004, the Department increased the number of grantees receiving payments through PMS over 50 percent from the same time last year.

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To further improve accountability and streamline the processing of grant transactions, the Department developed and successfully implemented interfaces between our existing "back-office" grant systems, the Department's central accounting system, and PMS. The interfaces replaced duplicative manual data entry procedures used to record financial and grants management data in each system. The new streamlined process created a single source of entry for data input, eliminating duplicative work for Department personnel and ensuring consistency and accuracy of data entered in the grant and financial systems within the Department as well as in PMS. The PMS interfaces were implemented in two phases during 2004.

*Phase I.* The Phase I interface automates the recording of payments made on the Department's behalf from PMS into the Department's central accounting system. Between its inception in February 2004 and July 2004, over 5,500 transactions totaling $282 million were processed through the Phase I interface.

*Phase II.* The Phase II interface creates fiscal and grant data (such as payment authorization and accounting classification code) to be loaded in the Department's central accounting system and PMS using a single point of entry to ensure the accuracy of data in both systems. Since its inception in July 2004, transactions are being successfully processed.

To support the implementation of PMS and the development of these interfaces, the Department has developed system assurance and reconciliation procedures for discrepant data reported between the Department's central accounting system and HHS' PMS. These procedures will help the Department and its grant-making bureaus manage the grants payment process more efficiently and strengthen our accountability.

**State/USAID Grants System Working Group**. The last section of this report describes the creation of a joint State/USAID Grants System Working Group, which is charged with developing and implementing a grants management system common solution. In an effort to ensure that the concerns and requirements of all bureaus within the Department are considered in the decisions made by the joint State/AID Grants System Working Group, the Under Secretary for Management issued a memorandum to the Executive Directors of bureaus that issue grants directing them to provide participants and support to the working group. As a result, the working group is representative of a broad cross section of the grant-making bureaus within the Department, as well as bureau representatives from A/OPE and OGFM, each of which provide oversight to the grants management process. The collaborative efforts of these groups will create an environment of acceptance throughout the Department for the inevitable changes needed to streamline and simplify the Department's grant management processes in the coming years.

**Training.** To assure that personnel stay up-to-date on changes and improvements in the area of Federal assistance, the Department conducted several one-day refresher courses on grants through the Department's Foreign Service Institute (FSI). These courses provide individuals involved in the grants management process, the most recent information related to proposed changes to legislation, regulations, initiatives, streamlining, and Grants.gov. Additional training has been and will continue to be provided to Financial Management Officers as part of overseas readiness training provided at FSI.

The Department is in the final stages of developing an on-line training course titled, *Introduction to Grants and Cooperative Agreements*, for grants personnel. This on-line course will deliver current information to a broader audience and will be monitored by the Department's Foreign Service Institute.

**Implementing Recent Changes Affecting the Pre-Award Process**

**A. Grants.gov FIND.** The Department fully implemented Grants.gov FIND (previously known as E-Find) in November 2003. To educate the Department's grants management community about, and encourage the use of, the Grants.gov initiative, the Department hosted a training session led by HHS where Grants.gov FIND was demonstrated. The session was well attended by grants personnel throughout the Department and resulted in an increase in the number of grants opportunities announced through FIND.

Since the Department began using Grants.gov FIND in November 2003, we have announced 47 grant opportunities from six different bureaus and offices using Grants.gov FIND. Users are excited about the ease of using this system and the information it provides.

**B. Announcement Template.** The announcement template is used for all Department grant funding opportunities announced using Grants.gov FIND. In addition, the joint State/USAID Grants System Working Group has developed requirements that JAAMS must be able to automatically feed grant announcements, incorporating the announcement template, directly to Grants.gov FIND.

**C. The Grants.gov Portal for Electronic Applications.** To facilitate implementation of Grants.gov APPLY (previously referred to as E-Apply), the Department is developing a preliminary "ramp-up" implementation schedule for using Grants.gov APPLY. We are also finalizing the list of OMB approved forms that will be used throughout the Department as a part of this process.

The Department has begun an outreach effort to inform our grants officers of the Central Contractor Registration (CCR) requirement for Grants.gov APPLY. CCR currently serves as the central repository of business information for procurement contractors and will be used in a similar manner for grant applicants.

The Data Universal Numbering System (DUNS) number, assigned by Dun and Bradstreet, is one of the data elements stored in the CCR. It is needed to use Grants.gov APPLY. The DUNS number is intended to be the universal identifier to track grantees and the expenditure of Federal funds through the grants life cycle. The Department has begun preparing for the use of DUNS numbers by modifying our central financial management system to store that data element as part of the vendor reference table.

The Department encountered problems during 2004 implementing the DUNS number requirement for Federal assistance in our overseas locations, where most of the Department's grants officers are located. Currently, Dunn and Bradstreet offices in certain countries are charging recipients and embassies fees and, in some cases, also requiring membership in certain organizations prior to issuing DUNS numbers. As a result, the Department has requested from OMB an exemption to the DUNS number

requirement until the problems associated with acquiring a DUNS overseas are addressed.


**Joint State/USAID Strategic Planning and Impact on Financial Assistance Systems**


For the first time, the Department and U.S. Agency for International Development (USAID) have developed and issued a joint Strategic Plan that governs the planning efforts for both agencies for FY 2004 through 2009 (http://www.state.gov/documents/organization/24299.pdf).  The plan's collaborated strengths are centered towards four strategic objectives:  1) achieve peace and security; 2) advance sustainable development and global interests; 3) promote international understanding, and 4) strengthen diplomatic and programmatic capabilities (with the goal of achieving management excellence).

Though several joint State/USAID management projects have been undertaken in the past, there had been no central body to help move these projects to a unified end until now.  The Joint State/USAID Management Council, chaired by the Department's Under Secretary for Management and USAID's Deputy Administrator, was created to direct and oversee the implementation of strategies and priorities included in the plan.  Joint initiative working groups were established to address management areas such as human resources, e-government, and resource management.  The working groups develop detailed work plans with concrete milestones and report regularly to the Joint State/USAID Management Council.

Under the auspices of the Joint State/USAID Management Council, the Grants System Working Group was established in FY 2004 to develop a Joint Acquisition and Assistance Management System (JAAMS).  The primary objective of this effort is to select and implement a "back-office" acquisition and financial assistance system that:

- satisfies the functional requirements of both organizations;
- can be fully integrated with our financial management systems;
- meets the Joint Financial Management Improvement Program (JFMIP) grant system requirements; and
- is compatible with Grants.gov.

JAAMS will be adaptable to incorporate the government-wide framework for effectively supporting end-to-end grants management activities resulting from OMB's GM LOB initiative.

The State/USAID Grants System Working Group has made significant progress with respect to JAAMS this year as follows.

- Identified system requirements (JFMIP, joint State/USAID, and agency-specific requirements).

- Performed a market analysis of commercial off-the-shelf grants management solutions.
- Assessed existing State/USAID grant management systems to determine if any of these systems could be implemented as a solution to this joint endeavor.
- Developed a joint business case for JAAMS to be submitted to OMB.

Several members of the State/USAID Grants System Working Group are also participating members of OMB's GM LOB working group to ensure that recommendations, requirements and the overall direction of the GM LOB, are appropriately considered as we advance in the development of JAAMS.